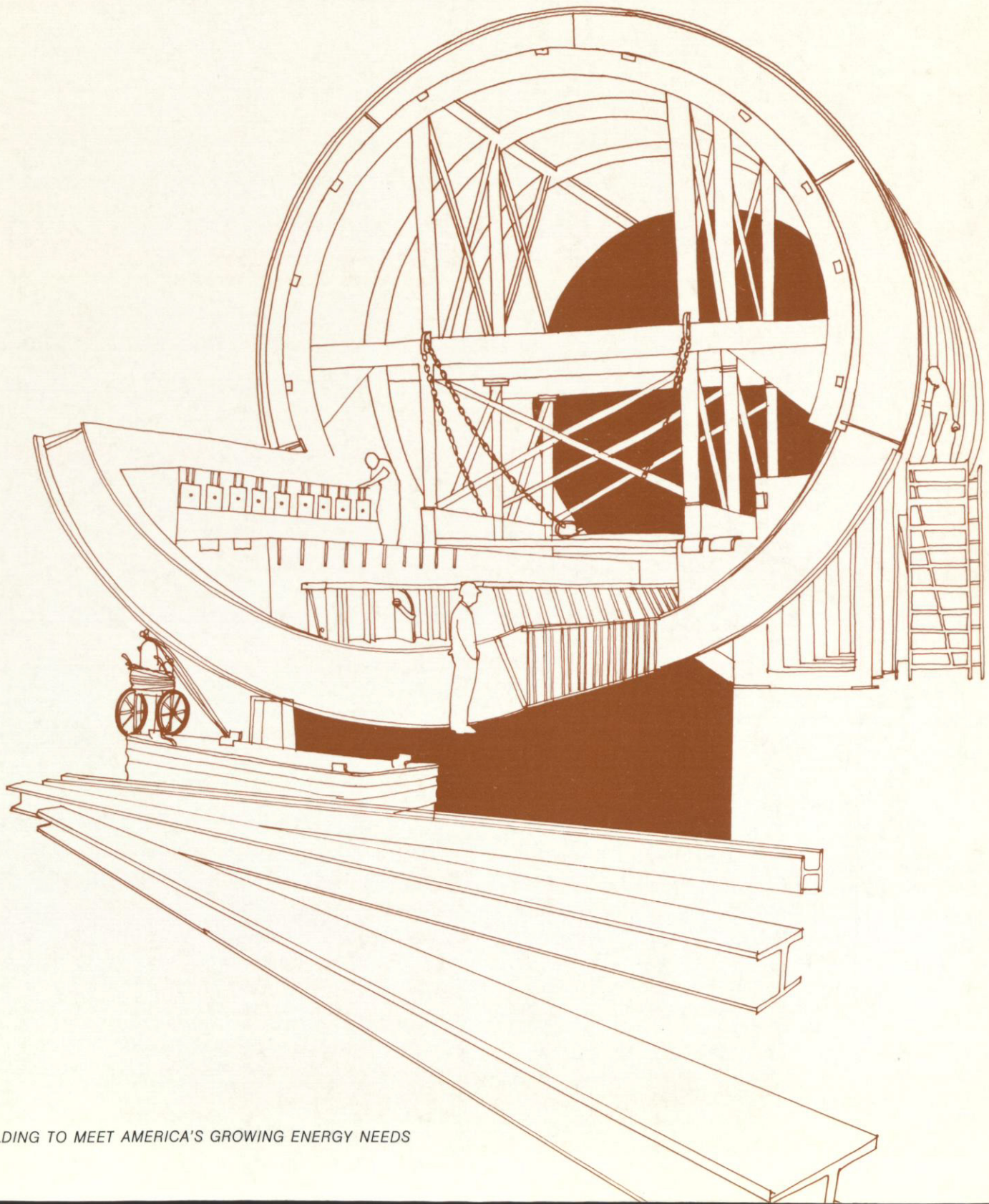


THE BETHLEHEM CORPORATION

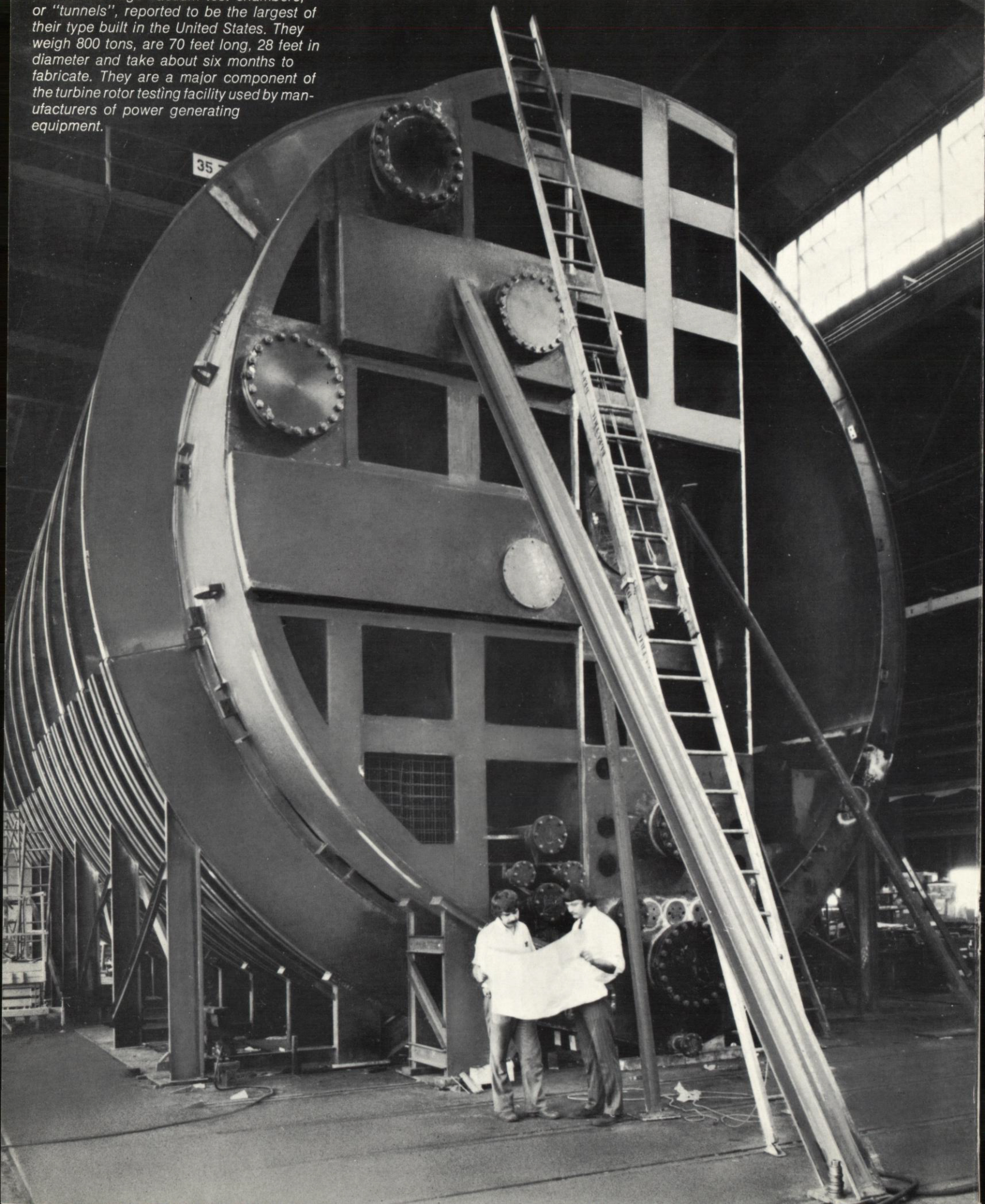
ANNUAL REPORT 1973

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BUILDING TO MEET AMERICA'S GROWING ENERGY NEEDS

shown under construction (above and on front cover) at Bethlehem's Easton plant is one of two huge vacuum test chambers, or "tunnels", reported to be the largest of their type built in the United States. They weigh 800 tons, are 70 feet long, 28 feet in diameter and take about six months to fabricate. They are a major component of the turbine rotor testing facility used by manufacturers of power generating equipment.



Five Year Financial Summary

	1973	1972	1971	1970	1969
Net sales (A)	\$10,956,282	\$11,458,733	\$10,698,840	\$11,287,670	\$9,019,252
Profit from continuing operations before taxes:	334,274	(407,781)	242,216	784,479	780,628
Profit from continuing operations	176,974	(187,881)	126,516	367,579	334,528
Earnings (loss) from discontinued operations (A)	—	(310,661)	21,355	102,338	54,949
Extraordinary items	—	(89,781)	15,609	—	—
Net earnings	176,974	(588,323)	163,480	469,917	389,477
% to net billings	1.6%	—	1.52%	4.2%	4.3%
Earnings per share (B)	.20	(.66)	.18	.53	.44
					.124 +
Dividends per share (B)	—0—	—0—	—0—	10% stock	10% stock
Long-term debt	1,508,687	1,876,683	2,320,364	2,681,104	2,726,143
Shareholders' equity	4,842,859	4,665,885	5,254,208	5,090,728	4,624,778
Average number of shares outstanding (B)	887,781	887,781	887,781	887,781	887,781

(A) Restated for discontinued operations.

(B) After giving effect to 10% stock dividends in 1969 and 1970.

To Our Shareholders:

We are pleased to report improvement in your Company's net earnings during 1973.

The full year's profits were \$176,000 after taxes compared with a loss of (\$187,000) on continuing operations for the previous year, reflecting a turn around of \$363,000.

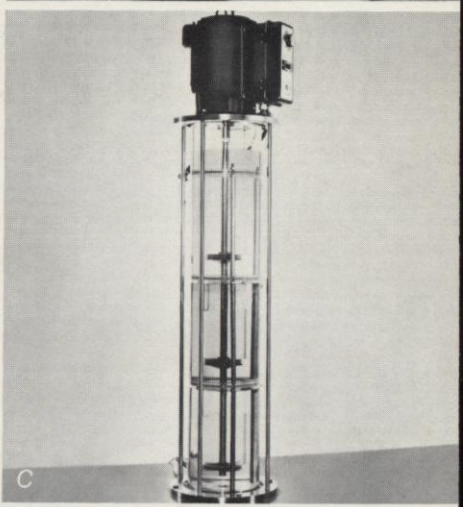
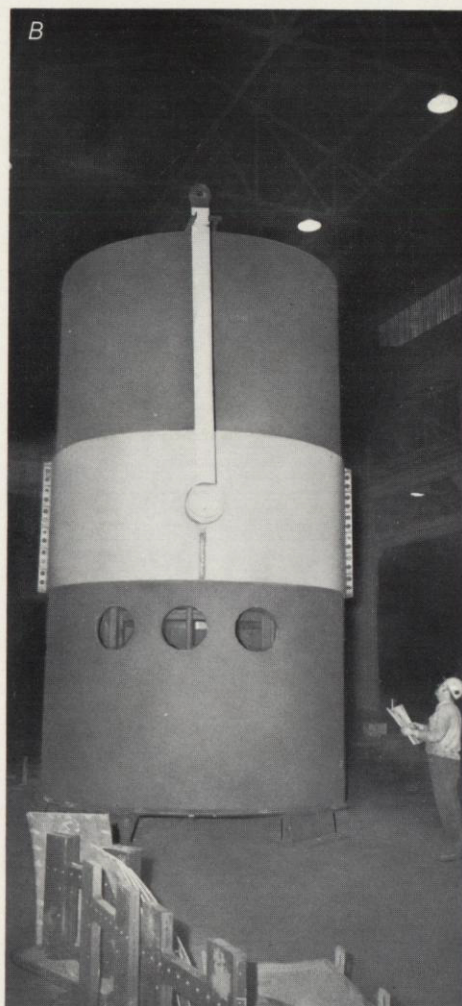
In 1973 our first six months revenues were affected by the closing of our foundries. These sales were more than replaced with new business by the end of the year.

Our record high backlog at yearend was \$15 million, an increase of 114% over the prior year. A substantial portion of this backlog was providing engineering services and manufacturing components for new customers in the energy, steel mill machinery and chemical processing fields.

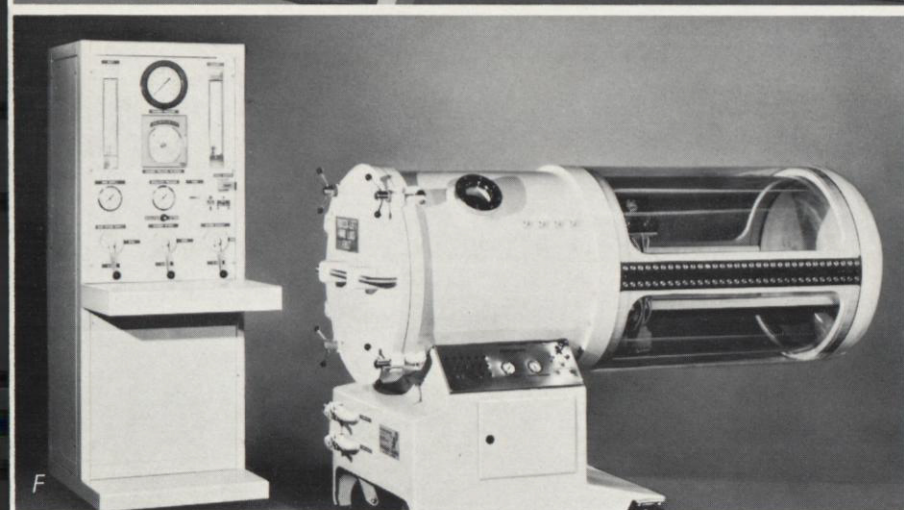
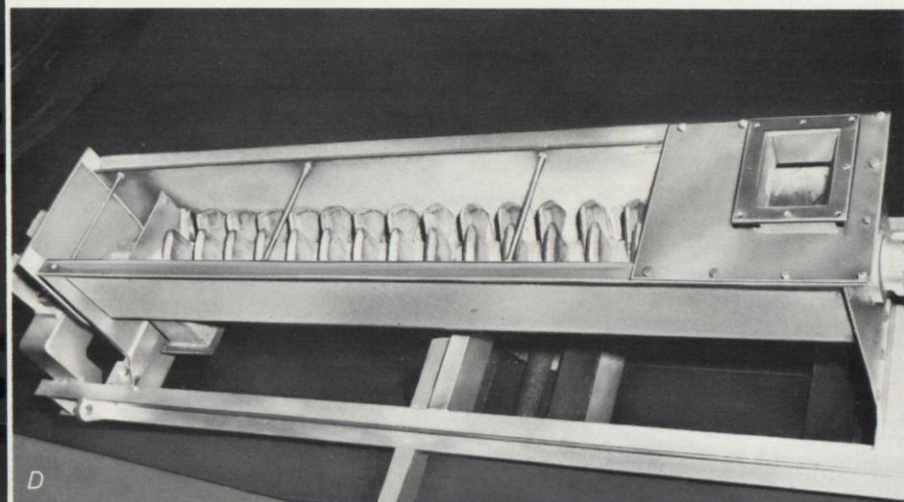
The "Porcupine", our patented design for heat transfer and mixing equipment became better recognized as the fine product it is during 1973. This resulted in the biggest single order in the history of our Processing Division. The contract calls for delivery in 1974 of a large number of "Porcupines" engineered for use in the synthetic textile fibre industry.

We also booked for delivery this year a large order for generator frames which are the housings for turbine generator rotors. These units weigh up to 80 tons when complete and are used in conjunction with other components for electrical power generation.

We are building over 100 special wire drawing



- A. Generator frame for gas turbine.
- B. Welding a section of power generating component.
- C. The "Ergulator", a vertical multi-stage mixer and reactor.
- D. Agitators in "Porcupine" processor.



- E. Hyperbaric facility for U.S. Navy underwater environmental study.
- F. Bethlehem 307C single patient hyperbaric treatment chamber.
- G. Wire drawing machines being assembled at Glendon Plant.

machines, which will be used in the manufacture of wire for steel belted radial tires.

Increased activity in the field of petroleum exploration and development is also adding to our order backlog. Of particular note in this regard are orders for a variety of "Flow Tubes" (a device used for primary measurement and control of fluid flow). These will be used in conjunction with offshore drilling operations in the North Sea as well as for other similar applications.

We are presently constructing for the U.S. Navy a hyperbaric complex for testing environmental effects in deep sea exploration.

Our research and development program resulted in a promising new product, a continuous vertical multi-stage mixer and reactor which we call the "Ergulator."

In addition to the many components which we manufacture for power generating plants, we have built and delivered a second large vacuum type chamber, reported to be the largest built in the United States, as illustrated in this report.

In view of the energy crisis, we feel that our 118-year-old company, with its experience and engineering skills in the manufacture of energy related components, should contribute importantly to the Government's projected multi-billion dollar program.

On behalf of the Board of Directors, we would like to thank our shareholders, our employees and our customers for their continuing loyalty and support.

James I. McClintock
Chairman

Wesley J. Peoples
Co-Chairman and President

April 1, 1974

The Bethlehem Corporation**Balance Sheet**

December 31, 1973 and 1972

	<u>1973</u>	<u>1972</u> (as restated— Note C)
Assets		
Current Assets		
Cash (including \$550,000 held in interest bearing certificates of deposit in 1973)	\$1,049,148	\$ 1,075,723
Less cash restricted under compensating balance arrangement (Note C)	206,250	243,750
	<u>842,898</u>	<u>831,973</u>
Accounts receivable, less allowance for doubtful accounts of \$60,000 in 1973 and 1972	2,332,841	2,023,243
Inventories (Note A-1)		
Raw materials, parts and supplies	709,804	769,364
Work in process and finished products	1,985,249	1,477,523
	<u>2,695,053</u>	<u>2,246,887</u>
Refundable taxes on income		633,183
Prepaid expenses and other current assets	91,672	193,339
Total current assets	<u>5,962,464</u>	<u>5,928,625</u>
Property, Plant and Equipment—at cost, Partially Pledged (Note C)		
Land	557,800	557,800
Buildings and leasehold improvements	998,101	998,101
Machinery and equipment	4,634,549	4,647,849
	<u>6,190,450</u>	<u>6,203,750</u>
Less accumulated depreciation and amortization (Note A-2)	2,769,991	2,510,257
	<u>3,420,459</u>	<u>3,693,493</u>
Assets held for sale (net) (Note B)	25,821	222,216
	<u>3,446,280</u>	<u>3,915,709</u>
Cash—compensating balance arrangement (Note C)	206,250	243,750
Deferred Expenses (Note A-3)	88,337	104,841
	<u>\$9,703,331</u>	<u>\$10,192,925</u>
	<u>1973</u>	<u>1972</u>
Liabilities		
Current Liabilities		
Notes payable to banks—unsecured	\$1,000,000	\$ 1,500,000
Notes payable—other—secured	45,000	45,000
Current maturities of long-term debt	363,696	438,298
Accounts payable	1,198,905	919,119
Salaries and wages, commissions, taxes and sundry accruals	478,377	584,064
Federal income taxes (Note A-4)	72,385	
Total current liabilities	<u>3,158,363</u>	<u>3,486,481</u>
Long-Term Debt—Net (Note C)	1,508,687	1,876,683
Deferred Income Taxes (Note A-2)	193,422	163,876
Commitments and Contingencies		
Stockholders' Equity		
Common stock—authorized, 2,000,000 shares without par value, stated value of \$.50 per share; issued 892,016 shares	446,008	446,008
Additional paid-in capital	1,913,232	1,913,232
Retained earnings	2,494,494	2,317,520
	<u>4,853,734</u>	<u>4,676,760</u>
Less 4,235 shares of common stock reacquired and held in treasury—at cost	10,875	10,875
	<u>4,842,859</u>	<u>4,665,885</u>
	<u>\$9,703,331</u>	<u>\$10,192,925</u>

The accompanying notes are an integral part of this statement.

The Bethlehem Corporation
Statement of Operations and Retained Earnings
Year ended December 31

	<u>1973</u>	<u>1972</u>
Net sales	\$10,956,282	\$11,458,733
Cost of goods sold	9,159,508	10,359,653
Gross profit	<u>1,796,774</u>	<u>1,099,080</u>
Selling and administrative expenses		
Selling	636,359	503,112
Administrative	649,494	769,758
	<u>1,285,853</u>	<u>1,272,870</u>
Operating profit (loss)	<u>510,921</u>	<u>(173,790)</u>
Other income		
Gain on sale of fixed assets	56,805	
Interest income	39,724	
Sundry	18,232	27,912
	<u>114,761</u>	<u>27,912</u>
	625,682	(145,878)
Other deductions—interest	<u>291,408</u>	<u>261,903</u>
Earnings (loss) from continuing operations before income taxes and extraordinary items	334,274	(407,781)
Income taxes (credits) before reductions arising from losses from discontinued operations and extraordinary items		
State income taxes	29,500	
Federal income taxes	127,800	(219,900)
	<u>157,300</u>	<u>(219,900)</u>
Earnings (loss) from continuing operations before extraordinary items	<u>176,974</u>	<u>(187,881)</u>
Loss from discontinued operations, net of related income taxes of \$295,800 in 1972 (Note B)		(310,661)
Earnings (loss) before extraordinary items	<u>176,974</u>	<u>(498,542)</u>
Extraordinary items (Note B)		
Loss on sale of assets of discontinued operations, net of related income taxes of \$10,800		(11,781)
Provision for losses on discontinued operations, net of related income taxes of \$72,000		(78,000)
		<u>(89,781)</u>
Net Earnings (Loss)	<u>176,974</u>	<u>(588,323)</u>
Retained earnings—beginning of year	2,317,520	2,905,843
Retained earnings—end of year	<u>\$ 2,494,494</u>	<u>\$ 2,317,520</u>
Earnings (loss) per common share (Note E)		
Continuing operations	\$.20	\$ (.21)
Discontinued operations		(.35)
Extraordinary items		(.10)
Earnings (loss) per share of common stock	<u>\$.20</u>	<u>\$ (.66)</u>

The accompanying notes are an integral part of this statement.

The Bethlehem Corporation
Statement of Changes in Financial Position
Year ended December 31

	<u>1973</u>	<u>1972</u>
Sources of working capital		
From operations		
Earnings (loss) from continuing operations	\$176,974	\$ (187,881)
Charges against earnings from continuing operations which did not require an expenditure of working capital		
Depreciation and amortization (Note A-2)	329,796	334,177
Deferred income taxes (Note A-2)	29,546	33,548
Working capital from continuing operations	<u>536,316</u>	<u>179,844</u>
Earnings (loss) from discontinued operations (Note B)		(310,661)
Charges against discontinued operations which did not require an expenditure of working capital		
Depreciation and amortization		35,536
Working capital from operations before extraordinary items		<u>(95,281)</u>
Extraordinary item, net of related income tax credits of \$21,500 (Note B)		<u>(89,781)</u>
Working capital from operations	<u>536,316</u>	<u>(185,062)</u>
Disposition of fixed assets	187,749	106,278
Decrease in cash compensating balance	37,500	
	<u>761,565</u>	<u>(78,784)</u>
Applications of working capital		
Acquisition of fixed assets, net	48,116	266,754
Reduction of long-term debt	367,996	443,681
Sundry applications (sources), net	(16,504)	25,944
	<u>399,608</u>	<u>736,379</u>
Net Increase (Decrease) in Working Capital	<u>\$361,957</u>	<u>\$ (815,163)</u>
Changes in components of working capital		
Increase (decrease) in current assets		
Cash	\$ 10,925	\$ 358,790
Notes and accounts receivable	309,598	(612,845)
Inventories	448,166	(1,013,356)
Refundable taxes on income	(633,183)	426,631
Prepaid expenses	(101,667)	97,703
	<u>33,839</u>	<u>(743,077)</u>
(Increase) decrease in current liabilities		
Notes payable to banks—unsecured	500,000	(400,000)
Notes payable—other—secured		(45,000)
Current maturities of long-term debt	74,602	(10,893)
Accounts payable	(279,786)	472,466
Salaries, wages, commissions, taxes and sundry accruals	105,687	(88,659)
Federal income taxes	(72,385)	
	<u>328,118</u>	<u>(72,086)</u>
Net Increase (Decrease) in Working Capital	<u>\$361,957</u>	<u>\$ (815,163)</u>

The accompanying notes are an integral part of this statement.

Note A—Summary of Accounting Policies

A summary of the company's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally by the first-in, first-out method.

2. Depreciation and Amortization

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on a straight-line basis. The straight-line method of depreciation is followed for substantially all assets for financial reporting purposes, but accelerated methods are used for tax purposes. Future income taxes resulting from depreciation differences have been provided.

3. Pension Plans

The company has noncontributory funded and unfunded retirement plans in effect covering substantially all of its employees. The total pension expense for the years ended December 31, 1973 and 1972 was approximately \$140,500 and \$137,400, respectively, which includes amortization of prior service costs over periods of 25 to 30 years. The deferred tax benefits (approximately \$78,000 at December 31, 1973) result from the timing differences in recording the expenses relating to the unfunded plan for financial and tax purposes.

4. Investment Credits

The company accounts for investment tax credits by the "flow-through" method. Under this method, credits are recognized as a reduction of income tax expense in the year the assets giving rise to the credit are placed in service.

Note B—Discontinued Operations

In 1972, the company decided to close its foundry operations in early 1973. As a result of this, certain segments of the company's business have been discontinued. (The company will still continue to take orders that include foundry work and fulfill these requirements with subcontracts.) The sales, costs and expenses of those portions of foundry work that have been discontinued, have been segregated in the accompanying statement of operations from continuing operations for 1972. In 1972, \$1,392,450 of sales have been excluded.

In addition, provision was made as an extraordinary charge for losses to be incurred in 1973 in connection with the closing of the foundry operation amounting to \$78,000 net of income taxes.

In 1971, the company sold most of the business and assets of its Modern Collet and Machine Division and realized a gain. In 1972, substantially all of the remaining business and assets of this division were sold at a loss. Such gains and losses have been reflected as extraordinary items in the accompanying statement of operations. In addition, the operations of this division have been segregated from continuing operations. In 1972, \$37,152 of sales was excluded.

Note C—Long-Term Debt

Long-term debt at December 31, 1973 and 1972 consists of:

	1973	1972
Notes payable to bank in quarterly installments of \$62,500 plus interest at 1% over the bank's prime rate; final installment of \$1,125,000 due on May 1, 1975 unsecured	\$1,375,000	\$1,625,000
Loan payable to bank in monthly installments of \$4,300 plus interest at 2½% over the bank's prime rate; secured by equipment; final installment due January 10, 1980	309,700	365,600
10½% equipment note obligation, payable in monthly installments of \$12,180, including interest; final installment due September 2, 1976	187,683	291,047
5½% equipment note obligation	33,334	33,334
	1,872,383	2,314,981
Less current maturities	363,696	438,298
	<u>\$1,508,687</u>	<u>\$1,876,683</u>

The loan agreements contain certain restrictions and covenants, including the prohibition of the company from paying dividends, other than in the form of stock, without the permission of the lender, the maintenance of certain levels of working capital and net worth, certain other limitations covering additions to fixed assets and future borrowings. In addition, the bank requires the company to maintain an average compensating balance on deposit with the bank of at least 15% of the average loan balance. As a result of such arrangement, \$206,250 and \$243,750 of the cash on deposit with the bank as of December 31, 1973 and 1972, respectively, has been segregated on the balance sheet. The December 31, 1972 balance sheet has been restated to reflect this segregation.

Note D—Qualified Stock Option Plan

In 1971, the company established a Qualified Stock Option Plan under which a maximum of 25,000 shares of common stock were reserved for the issuance of stock options to officers and key employees. As at December 31, 1973, no stock options had been granted under this plan.

Note E—Earnings (Loss) Per Share

Earnings (loss) per share were computed on the average number of shares outstanding during 1973 and 1972.

Auditors' Report

Board of Directors The Bethlehem Corporation

We have examined the balance sheet of The Bethlehem Corporation (a Pennsylvania corporation) as of December 31, 1973, and the related statements of operations and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the financial statements referred to above present fairly the financial position of The Bethlehem Corporation at December 31, 1973, and the results of its operations and changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Alexander Grant & Company

New York, New York
January 24, 1974

Directors

John F. Bacon

Practicing Attorney

O. Karl Dieckmann

President of Hydraulic Power Systems, Inc.

Morris L. Forer

Partner, Wolf, Block, Schorr and Solis-Cohen, Attorneys

Roger C. Hubbard

President of Hubbard Associates, Industrial Realtors

Edward E. Evans, Jr.

Chairman of the Board, Evarie Corporation, Detroit,

Michigan, a holding company; Director of Evans

Products Company, Portland, Oregon

James I. McClintock, Chairman of Board; Partner,

McClintock, Donovan, Carson & Roach

Wesley J. Peoples, Co-Chairman, President and Chief Executive Officer

Officers

James I. McClintock

Chairman of the Board

Wesley J. Peoples

Co-Chairman, President and Chief Executive Officer

B. Ord Houston

Executive Vice President and Treasurer

Arthur W. Smith

Vice President-Marketing and Engineering

H. J. Rosebery

Vice President-Manufacturing

O. Karl Dieckmann

Secretary

General Counsel

McClintock, Donovan, Carson & Roach

Detroit, Mich.

Pennsylvania Counsel

Wolf, Block, Schorr & Solis-Cohen

Philadelphia, Pa.

Certified Public Accountants

Alexander Grant & Company

New York, N.Y.

Transfer Agent and Registrar

Registrar and Transfer Company

Jersey City, N.J.

Stock Listed

American Stock Exchange

Detroit Stock Exchange

Annual Meeting

The Annual Meeting of shareholders

will be held at the Bethlehem Hotel,

Bethlehem, Pa., on April 26, 1974

at 11 A.M.



THE BETHLEHEM CORPORATION Established 1856

225 W. Second Street, Bethlehem, Pennsylvania 18016 Phone: 215-867-4605

PLANT LOCATIONS:

Bethlehem, Pennsylvania; Easton, Pennsylvania